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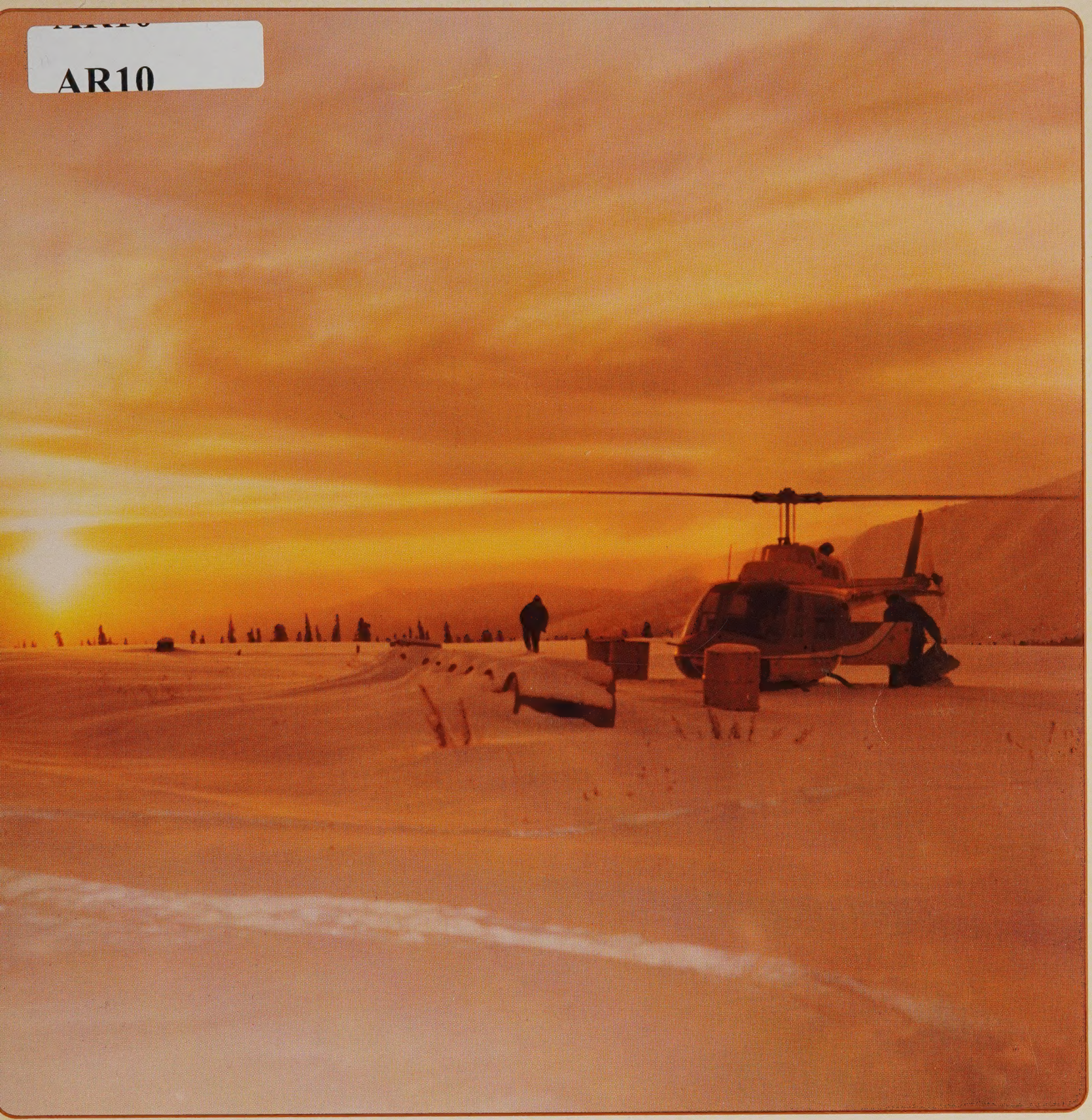


RIO ALTO EXPLORATION LTD.

ANNUAL REPORT 1976

RIO ALTO
EXPLORATION LTD.

CORPORATE INFORMATION

DIRECTORS

R.J. Allen	–	Vancouver, B.C.
C.W. Byler	–	Calgary, Alberta
H.G. Gammel	–	Calgary, Alberta
D.W. Hilland	–	Calgary, Alberta
J. Poscente	–	Calgary, Alberta
R.W. Termuende	–	Cochrane, Alberta

OFFICERS:

R.W. Termuende	–	President
D.W. Hilland	–	Secretary
J.A. Stewart	–	Assistant Secretary

HEAD OFFICE:

736 - 8th Avenue S.W.
Calgary, Alberta

SUBSIDIARIES:

North American Nuclear Limited
Rio Alto Petroleums Ltd.
Gamma Resources Ltd.
Rio Alto Development Co. Ltd.

BANKS:

Canadian Imperial Bank of Commerce
Royal Bank of Canada

TRANSFER AGENT AND REGISTRAR:

Canada Trust Company

LEGAL COUNSEL:

McLaws & Company

AUDITORS:

Collins Barrow

STOCK LISTING:

Alberta Stock Exchange

COVER:
Fuel cache at an airstrip near
Rio Alto's copper/zinc/silver prospect,
Yukon Territories.
Photo taken 10:30 a.m., late October, 1976.

RIO ALTO
EXPLORATION LTD.

TO THE SHAREHOLDERS

We are pleased to report that 1976 was a very active year for our Company and there have been a number of significant developments.

An exploration program on the Company's copper/zinc/silver claims in the Ogilvie Mountains area of the Yukon resulted in the discovery of new showings of minerals containing large percentages of copper, zinc and silver. Further exploration on this prospect will consist mainly of diamond drilling which is expected to be carried out in the summer of 1977. The magnetite deposit in the same area was sampled and proved to have a consistent grade averaging 55% iron across its exposed width.

Also in the Yukon, Rio Alto's uranium claims in the Quartet Lakes region were examined and an area containing anomalous amounts of radioactivity was located. A geophysical exploration program will be continued this coming season.

Rio Alto and its wholly owned subsidiary, North American Nuclear Limited, have varying interests in uranium prospects in Saskatchewan, Ontario and the Northwest Territories. All of these areas were explored during the past year. Diamond drilling is now underway on certain of our claims at Elliot Lake, Ontario and a similar program is recommended for our claims in the Wollaston Lake area of Saskatchewan.

In Spain a preliminary mapping program conducted on our mineral concessions confirmed and described numerous base metal occurrences. The potential for economic deposits on these concessions is encouraging and appropriate exploration will continue subject to applicable government regulations.

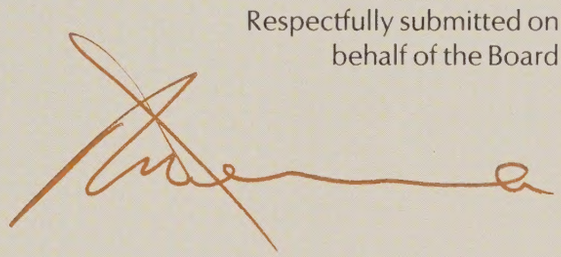
Our Company expanded its petroleum and natural gas activities in 1976 when Gamma Resources Ltd. was formed as a wholly owned subsidiary to develop oil and gas properties. The Rio Alto Drilling Fund (1976), with Gamma Resources Ltd. as General Partner, was fully subscribed and participated in the drilling of 38 gas wells, all of which were successful, in the Medicine Hat area of Alberta.

Revenue from oil and gas sources increased more than 40% over the previous year. Total income increased 28% from $151,000 in 1975 to $194,000 in 1976. Cash flow from operations before current income tax for the year was $40,900.

Our Company is maintaining a position where its income can sustain general and administrative expenses and provide a modest cash flow but our prospects, particularly in the Yukon, are at a stage where increased expenditures are required to evaluate them. Accordingly, your Directors have authorized a Rights offer whereby shareholders will have the right to purchase new shares on the basis of one new share for every five shares presently held. The proceeds from the Rights offer will be used to conduct our anticipated exploration programs in the coming year.

We appreciate the support of the shareholders and the efforts of the people who have contributed to the growth of the Company to date. We expect that 1977 will be a year in which our Company will continue to achieve significant results.

Respectfully submitted on
behalf of the Board



R.W. Termuende,
President

RIO ALTO
EXPLORATION LTD.

Rio Alto Exploration Ltd. Property location, Rusty Springs Prospect. Ogilvie Mountains area, Yukon Territories.

EXPLORATION AND DEVELOPMENT

BASE METALS AND IRON

Ogilvie Mountains area - Yukon Territories

During the fall and winter of 1975-1976 Rio Alto Exploration Ltd. and a private company staked 92 quartz claims and 15 iron claims in an area named Rusty Springs. Rio Alto has since acquired a 100% interest in all these claims subject to a royalty.

1. Copper, Zinc, Silver Showings

The quartz claims blanket an area of exposure of Middle Devonian dolomite which hosts copper, zinc and silver mineralization at four showings. The extent and richness of this mineralization has not been determined since bedrock has not been exposed by work to date. However, during an exploration program carried out by the Company in the summer of 1976, extensive mineralized float was found in an area that can be enclosed by an equilateral triangle whose sides are approximately one half mile.

The copper, zinc and silver showings are extremely significant in that this area of the Yukon has not been glaciated and the possibility of the existence of an enriched or "bonanza" ore body above a sulphide zone is attractive. Our program also confirmed the existence of considerable tetrahedrite mineralization, and, since this mineral is recognized as the primary ore of most commercial silver deposits, the potential of the property is enhanced significantly.

In the fall of 1976, the Company acquired a portable diamond drill capable of core drilling to a depth of 1,000 feet. This drill, with its equipment, has been transported to the Yukon and will be moved to the Rusty Springs site in late May. Our preliminary drilling program, estimated to cost $200,000, will then test the sub-surface formations to determine their composition and structure. About ten holes to a depth of approximately 800 feet are planned with the initial hole to be located on the discovery showing which coincides with a geochemical anomaly. Assays from numerous samples collected at this location have ranges of 5 to 15% copper, 33 to 39% zinc and carry up to 5 ounces of silver per ton.

2. Iron Formation

The iron claims are centered about an exposure of magnetite which occurs near the base of the Mesozoic System near the Rusty Springs prospect. A detailed examination determined that the exposure has a measured strike length of 1,200 feet and is 150 feet thick at the summit. Following considerable blasting, a continuous section was measured and sampled at 5 foot intervals across the deposit. Assays were consistent at about 55% iron. No further work is planned for the iron deposit this coming season.

Geologists examining the discovery site of Rio Alto's copper/zinc/silver showings, Rusty Springs, Yukon.

British Columbia

The Company reviewed its base metal prospects in B.C. and decided to abandon a number of claims in the Swansea and Bull River areas. Their potential under current conditions had been reduced by uncertain taxation policies, and overall these claims had a low priority relative to our Yukon activities and our Canadian uranium prospects.

The Company's 1,200 acres of mining leases at Sooke, B.C. are being retained and will be examined further in the near future.

Preparing for trenching and sampling at the Company's magnetite deposit, Ogilvie Mountains area, Yukon.

URANIUM

Elliot Lake, Ontario

North American Nuclear Limited, a wholly owned subsidiary of Rio Alto Exploration Ltd., has a 50% interest in about 180 claims in the Elliot Lake mining camp. The claims comprise six blocks located in different areas throughout the Quirke Lake syncline, which is Canada's major uranium producing area.

North American is currently drilling two of these blocks, one of which is being brought to lease.

A third block has been optioned to Long Lac Mineral Exploration Limited, who have informed us they will be drilling within a month or so. The option agreement provides that Long Lac will earn a 60% interest in the block by conducting a work program in 1977 and by a payment of $10,000 to North American.

Three blocks of claims lapsed early in 1977 and claims in selected areas are presently being re-staked.

Quartet Lakes, Yukon Territories

Rio Alto has a 100% interest in 62 claims in this area, and a 50% interest in 24 adjoining claims. During 1976 a Track-Etch radon survey was conducted on some of the claims. Anomalous uranium radioactivity was indicated in an east-west trending band across the claims. A continuing program in more detail has been proposed for the coming field season.

The Quartet Lakes area is being actively explored by a number of major companies following the reporting of uranium mineralization by the Geological Survey of Canada in 1976.

Hydichuk Lake, Saskatchewan

Rio Alto has a 100% interest in two claim blocks comprising about 2,000 acres covering a uranium anomaly in the Wollaston Lake area. The prospect is drift covered and all our surface exploration programs to date have not adequately explained the anomaly. In 1976 the Company commissioned an engineering evaluation to determine further programs. The Engineer's report concluded that "drilling is the most economical way to examine the subsurface for presence of radioactive pegmatite plugs or fault zone radioactivity". A three hole drilling program has been proposed.

Baker Lake, N.W.T.

Rio Alto's permit #362 was optioned to Union Oil Company of Canada early in 1976. Union carried out an airborne radiometric survey and a subsequent ground follow-up program. The results are not available at this time, but Union has retained about 80,000 acres of the original permit for further consideration. A recent Federal Government freeze on all exploration in the Baker Lake area has added unnecessary difficulties to the future of our interests in this area.

Australia

Rio Alto has a minority interest in an Australian company exploring for uranium and other minerals. Recent reports show that preliminary drilling has been encouraging, and further drilling is planned for at least one prospect in the Lake Frome area of Southern Australia.

FOREIGN EXPLORATION

Spain

In 1976 the Company retained a Spanish exploration consulting company to carry out a preliminary mapping program on a 60 square mile concession in south east Spain. The results were encouraging in that numerous occurrences of iron, copper, zinc, lead and tin were discovered and examined.

Rio Alto has options to earn a 75% interest in this concession. Terms of the option agreement include appropriate exploration programs to be carried out over a 5 year period.

RIO ALTO
EXPLORATION LTD.

PETROLEUM AND NATURAL GAS

The major source of the Company's income in 1976 was revenue from Rio Alto Petroleum's operations in Saskatchewan. A record $144,000 was received from oil and gas sales from production in the Dodsland and Lloydminster areas.

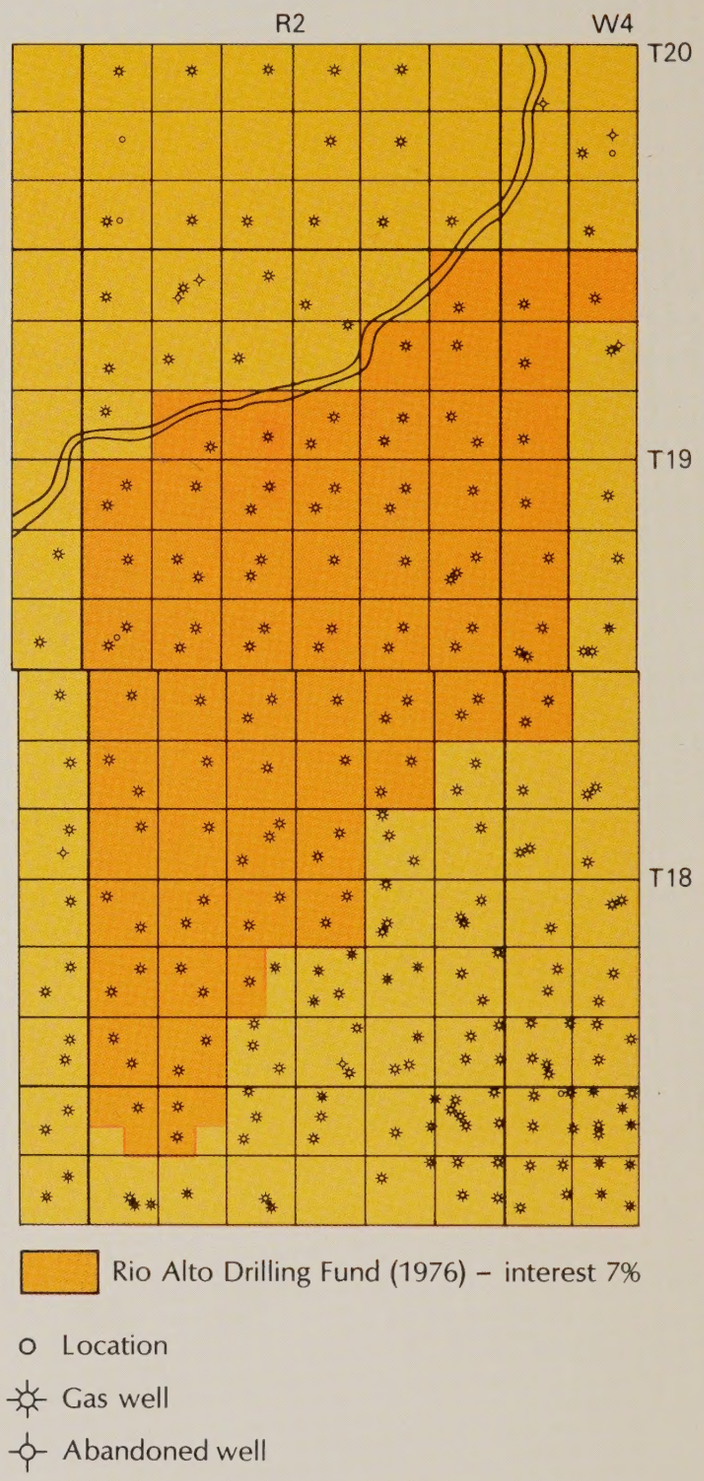
During the last quarter of 1976 the Company organized the Rio Alto Drilling Fund (1976). The fund earned a 7% interest in the Hilda Gas Unit #2 in the Medicine Hat area of Alberta by participating in the drilling of 38 successful gas wells. The Fund's expenditure for its share of the drilling costs was $578,000. Gamma Resources Ltd., a wholly owned subsidiary of Rio Alto Exploration Ltd. is the General Partner of the Fund. Gamma received an organizational fee of $19,950 and receives 10% of the Fund's revenue from the Unit until payout, at which time its participation will be increased (at no additional cost) to a 25% working interest.

COAL

Exploration for coking coal in Western Alberta has been severely reduced by new government policies. The Company continues to receive $18,000 per year in pre-production royalties from the Ram River and Nordegg properties. In addition the Company holds a minor royalty on a large block of coal leases in the Clearwater area of Alberta, being a continuation of the Ram River and Nordegg prospects. When any of these properties may be fully evaluated and placed on production cannot be determined at this time.

Rio Alto has acquired a 100% interest in 2,700 acres of thermal coal leases in South Central Alberta. This area offers considerable potential for the development of thermal coal under more favourable regulations and it is expected that these leases will be explored in the near future.

Hilda, Alberta



AUDITORS' REPORT

To the Shareholders
Rio Alto Exploration Ltd.

We have examined the consolidated balance sheet of Rio Alto Exploration Ltd. as at December 31, 1976 and the consolidated statements of income, deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, subject to the realization of mining interests as outlined in note 1, these consolidated financial statements present fairly the financial position of the company as at December 31, 1976 and the results of its operations and changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta
March 15, 1977
(March 31, 1977 as to note 7)

COLLINS BARROW
Chartered Accountants

RIO ALTO
EXPLORATION LTD.

CONSOLIDATED BALANCE SHEET

DECEMBER 31, 1976

ASSETS

	1976	1975
CURRENT ASSETS		
Cash	**$ 20,486**	$ 22,368
Term deposits	**61,000**	78,000
Accounts receivable	**41,080**	25,840
Share subscription receivable (note 3)	**10,000**	-
Prepaid expenses	**445**	-
	133,011	126,208
Drilling and exploration deposits	**4,925**	4,976
Investments (note 6)	**20,378**	41,632
Properties and equipment (notes 1 and 2)	**380,949**	319,873
	$ 539,263	$ 492,689

, Director

, Director

LIABILITIES

	1976	1975
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	**$ 78,033**	$ 26,253
Income taxes payable	**6,958**	8,842
	84,991	35,095
Deferred income taxes (note 1)	**–**	7,833

SHAREHOLDERS' EQUITY

CAPITAL STOCK (note 3)		
Authorized		
3,000,000 shares of no par value		
Issued		
1,963,935 (1975 – 1,913,935) shares	**537,593**	500,093
Subscribed		
20,000 shares	**10,000**	–
	547,593	500,093
DEFICIT	**(93,321)**	(50,332)
	454,272	449,761
	$ 539,263	$ 492,689

The accompanying notes are an integral part of these financial statements.

RIO ALTO
EXPLORATION LTD.

CONSOLIDATED STATEMENT OF INCOME

YEAR ENDED DECEMBER 31, 1976

	1976	1975
INCOME		
Oil and gas sales, net of royalties	**$144,859**	$120,254
Preproduction royalties	**18,000**	18,000
Management fees	**4,500**	4,150
Organization fees from limited partnership (note 4)	**19,950**	-
Interest and other	**7,043**	8,992
	194,352	151,396
EXPENSES		
Production	**81,736**	63,165
General and administrative	**71,655**	51,222
	153,391	114,387
INCOME BEFORE THE FOLLOWING	**40,961**	37,009
Depreciation	**8,725**	10,764
Depletion	**4,700**	12,725
Costs of projects abandoned	**50,352**	500
	63,777	23,989
INCOME (LOSS) BEFORE INCOME TAXES AND EXTRAORDINARY ITEM	**(22,816)**	13,020
INCOME TAXES		
Current	**6,752**	9,219
Deferred (recovered) (note 1)	**(7,833)**	(567)
	(1,081)	8,652
INCOME (LOSS) BEFORE EXTRAORDINARY ITEM	**(21,735)**	4,368
Provision for loss due to permanent decline in market value of investments (note 6)	**21,254**	-
NET INCOME (LOSS) FOR THE YEAR	**(42,989)**	$ 4,368
EARNINGS PER SHARE (note 1)		
Income (loss) before extraordinary item	**$ (.01)**	$ -
Net Income (loss) for the year	**$ (.02)**	$ -

The accompanying notes are an integral part of these financial statements.

RIO ALTO
EXPLORATION LTD.

CONSOLIDATED STATEMENT OF DEFICIT

YEAR ENDED DECEMBER 31, 1976

	1976	1975
DEFICIT, BEGINNING OF YEAR	**$ 50,332**	$ 54,700
Net income (loss) for the year	**(42,989)**	$ 4,368
DEFICIT, END OF YEAR	**$ 93,321**	$ 50,332

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

YEAR ENDED DECEMBER 31, 1976

	1976	1975
SOURCE OF FUNDS		
Funds provided by operations	**$ 34,209**	$ 27,790
Reduction in drilling and exploration deposits	**51**	-
Proceeds on disposal of properties and equipment	**4,955**	2,815
Sale of capital stock	**47,500**	-
Total source of funds	**86,715**	30,605
USE OF FUNDS		
Additions to properties and equipment	**129,808**	63,459
Increase in investments	**-**	6,632
Total use of funds	**129,808**	70,091
DECREASE IN WORKING CAPITAL	**43,093**	39,486
Working capital, beginning of year	**91,113**	130,599
WORKING CAPITAL, END OF YEAR	**$ 48,020**	$ 91,113

The accompanying notes are an integral part of these financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1976

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of consolidation

The consolidated financial statements include the accounts of the company and all of its subsidiaries, Rio Alto Petroleums Ltd., North American Nuclear Limited and Gamma Resources Ltd. Any excess of cost of shares in the subsidiaries over the underlying net book value at dates of acquisition have been allocated to the property and equipment accounts.

(b) Oil and gas properties

The company follows the full cost method of accounting for oil and gas operations. Under this concept, all costs relating to the exploration for and development of oil and gas properties are capitalized and depleted on the unit of production method based on estimated recoverable reserves of oil and gas as determined by independent and company engineers. Proceeds on disposal of properties are normally deducted from accumulated costs without recognition of any gain or loss.

(c) Mining operations

The company follows the practice of capitalizing all acquisition and exploration costs relating to mining properties on a prospect area. If a prospect area is subsequently abandoned, all capitalized costs relating to the area are charged to income. Realization of the amounts represented by property interests and deferred expenditures is dependent upon future development, since the properties represented by these assets are substantially unexplored or undeveloped.

(d) Depreciation

Depreciation of production equipment is also provided for on the unit of production method. Depreciation of sundry equipment is provided for on the declining balance method at rates of 20% and 30% per annum.

(e) Income taxes

Certain costs and expenses are recognized for income tax purposes and for financial reporting purposes in different time periods. When costs and expenses are recognized for tax purposes before being charged in the accounts, the resulting deferrals of taxation are recorded in the deferred income tax account; when costs and expenses are charged in the accounts before they can be applied in reduction of income for tax purposes, the related tax benefit is recorded when the application can be made.

At December 31, 1976 the company has accumulated unrecorded timing differences which could result in future tax benefits of $13,510.

(f) Earnings per share

Earnings per share is based on the weighted average number of shares outstanding during the year which for 1976 was 1,918,900 (1975 - 1,913,935). The exercising of share options would not be dilutive.

2. PROPERTIES AND EQUIPMENT

The following is a summary of properties and equipment:

	Assets at Cost	Accumulated depreciation and depletion	Net 1976	Net 1975
North America				
Oil and gas properties including exploration and development costs	$ 73,433	$ 32,063	$ 41,370	$ 35,918
Mineral interests including exploration costs	274,597	-	274,597	243,246
Production equipment	32,757	14,765	17,992	23,381
Sundry equipment	30,090	8,290	21,800	6,330
Europe				
Mining properties	25,190	-	25,190	10,998
	$436,067	$55,118	$380,949	$319,873

3. CAPITAL STOCK

(a) During 1976 the company issued 50,000 additional shares for $37,500 cash.

(b) At December 31, 1976 the company had entered into a contractual obligation to issue 20,000 shares for a cash consideration of $10,000. The shares were issued in January, 1977.

(c) At December 31, 1976 90,000 shares of capital stock were reserved for options granted to an officer of the company at an option price of $.35 per share. On January 3, 1977 the officer exercised all of the options.

(d) At December 31, 1976, 140,000 shares of capital stock were reserved for options granted as partial consideration for the acquisition of mining properties during the year. The options are exercisable at prices as follows:

Exercise Date	**Price per Share**
To September 1, 1977	$ .70
To September 1, 1978	.75
To September 1, 1979	.80
To September 1, 1980	.85
To September 1, 1981	.90

4. LIMITED PARTNERSHIP AND CONTINGENT LIABILITY

Gamma Resources Ltd. (Gamma), a subsidiary of the company, is the sole general partner of Rio Alto Drilling Fund (1976), a limited partnership formed pursuant to the laws of the Province of Alberta, for the purpose of developing oil and gas properties. The limited partnership agreement provides that Gamma is required to pay 10% of all tangible equipment costs of all wells drilled by the partnership. Operating income, operating expenses and proceeds from the sale of properties will be prorated 90% to the limited partners, and 10% to Gamma until payout of the costs of the limited partners. After payout the proration will be 75% and 25% respectively. In addition Gamma received a $19,950 fee for organizing the partnership.

Gamma has guaranteed the bank indebtedness of the limited partners in the amount of $399,000. This bank indebtedness of the limited partners is also secured by the oil and gas properties of the limited partnership and revenue from production.

An officer and director of the company is a limited partner of Rio Alto Drilling Fund (1976) and as outlined above, Gamma has guaranteed bank indebtedness of this limited partner in the amount of $35,000.

5. COMMITMENTS AND GUARANTEES

Pursuant to an agreement to purchase certain mining claims, the company is committed to expend a minimum of $125,000 by September 1, 1981, on the exploration and development of these mining claims.

6. INVESTMENTS

	1976	**1975**
Investments, at cost	$41,632	$41,632
Less: Provision for loss due to permanent decline in market value	21,254	-
	$20,378	$41,632

7. SUBSEQUENT EVENT

On March 21, 1977 the directors approved in principle a proposed rights issue. The terms of the proposed issue would be one right for every five shares to be exercisable at a price approximately 15% below market price. It is estimated that 415,000 shares would be issued if all the rights were exercised.

RIO ALTO
EXPLORATION LTD.

Litho'd in Canada
CALGARY, ALBE